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C O N F I D E N T I A L SECTION 01 OF 05 PRAGUE 000153

SIPDIS

FOR THE PRESIDENT FROM CHARGE D'AFFAIRES MARY THOMPSON-JONES

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TAGS: [OVIP](#) [OBAMA](#) [PREL](#) [PGOV](#) [ECON](#) [ENRG](#) [EUN](#) [MARR](#) [SENV](#)
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SUBJECT: SCENESETTER FOR THE PRESIDENT'S PRAGUE VISIT

Classified By: Charge d' Affaires, a. i., Mary Thompson-Jones, for reasons 1.4 (b) and (d).

Mr. President:

¶1. (C) Summary/overview: We warmly welcome your visit to Prague. Twenty years after the Velvet Revolution, ten years after joining NATO, and five years after joining the European Union, your visit during the Czech Republic's EU presidency symbolizes this country's remarkable journey from communism to flourishing democracy. You will meet Czech leaders who remember firsthand, and are still grateful for, U.S. Cold War opposition to Soviet domination of Europe and our effort in World War II. But you will also address a younger generation of Czechs born after the fall of communism. The leadership here is aging. The giants of the Velvet Revolution are nearing the end of their era. Vaclav Havel, in fragile health at 72, has been out of power for six years. Current President Vaclav Klaus is now 67, and Foreign Minister Karel Schwarzenberg, now 71, had heart surgery last year. While these Czech stalwarts believe intrinsically in America's role in Europe, the younger generation may well see transatlanticism as an abstract concept. It is up to us to articulate and instill that enduring principle in future leaders. Helping us is the fact that the societal memories transcend age differences and Czechs remain among our closest friends and strongest supporters in Europe. Last year's admission of the Czech Republic into the Visa Waiver Program, which opened the U.S. door wider, was seen here as a vote of confidence that their transition to a prosperous and democratic nation was complete.

¶2. (C) Across the spectrum, Czechs are delighted by your visit, optimistic about the new U.S. administration, eager for multilateralism, and hoping to be consulted and heard. They are open to U.S. leadership and a new vision for transatlantic bonds that work toward common goals.

¶3. (C) Securing your presence in their capital for an extraordinary U.S.-EU summit is a signal achievement for the Czechs' first-ever EU presidency. Czech views of U.S.-EU issues often mirror our own, and we can quietly seek ways to strengthen their hand. While the Czechs, as EU president, must seek EU consensus ahead of advancing their national viewpoint, a successful Czech EU presidency could pave the way for a stronger Czech voice within the EU afterward, with long-term benefits for U.S. interests.

¶4. (C) Prime Minister Mirek Topolánek's center-right government is a staunch U.S. ally which has expended considerable political capital to support the U.S. on missile defense and in Afghanistan. The PM seeks a clear statement that, whatever the results of the ongoing policy review, the U.S. will not abandon missile defense and will continue to consult with the Czechs as the policy process moves forward. Pulling back on missile defense, if not managed carefully,

would be a blow to pro-Americanism in the Czech Republic and would strengthen the perception that other U.S. goals elsewhere trump U.S. relations with the Czech Republic. Czech contributions in Afghanistan are notable, given the country's size. Currently, public support for foreign involvement is waning and many Czechs see Afghanistan as a U.S. problem. However, Czechs have historically been among Europe's most eloquent voices in defense of democracy and human rights, and remain receptive to the idea that their actions can make a difference on the world stage. End summary/overview.

EU Agenda: Gas, Gaza, Guantanamo

15. (C) The Czech Republic joined the EU in May 2004, and assumed its first-ever rotating six-month presidency on January 1, 2009. The Czechs are especially proud that your visit comes during their leadership and they consider this a historic moment in transatlantic relations. The Czech Republic shares our goals and approaches to key foreign policy issues. From Cuba to Russia to the Balkans, we have worked with the Czech Republic closely in the past, and this close cooperation has continued during the Czech EU presidency.

16. (C) The Czech presidency's theme is "Europe Without Borders" and its three priority areas, the "3 E's," are: 1) Economic Competitiveness (including addressing the challenges of the global financial crisis); 2) Energy Security and Sustainability; and 3) Europe in the World (external

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relations). Their first several weeks at the helm of the EU, however, quickly became consumed by the "2 G's": gas and Gaza (with Guantanamo referred to as a third "G" in private conversations with Czech officials). The Czechs' active shuttle diplomacy facilitated a solution to the Russia-Ukraine gas dispute, which won praise from their colleagues.

17. (C) The bigger challenge, however, is to unite the EU behind an energy security strategy that rests on diversification of suppliers and routes, including support for the Nabucco and TGI (Turkey-Greece-Italy) pipelines, improved outreach to Caspian producers, and increased interconnectivity of the internal EU gas and electricity networks. The Czechs are trying to use the gas crisis as a catalyst to prompt increased EU action and plan to host an EU-Southern Corridor Summit on May 8. The Czechs are also using their EU presidency to promote nuclear power as an important CO2 emission-free option, and, despite Green party opposition, hope to release a tender for new units, for which Westinghouse will be one of the leading contenders. The unpredictability of Russian energy supplies had already hit the Czech Republic in 2008, when Russian crude oil deliveries to the Czech Republic declined sharply -- ostensibly for technical reasons -- following the July 2008 signing of the U.S.-Czech Ballistic Missile Defense Agreement.

Climate Change

18. (C) The Czech EU presidency is pressing the U.S. for larger reductions in greenhouse gas emissions by 2020 than the current U.S. proposal calls for (a return to 1990 levels by 2020) and for strong U.S. investment in a low-carbon economy. The EU also hopes to create a common cap-and-trade market with the U.S. rather than a country-by-country carbon tax system. The Czechs oppose EU committing itself to any funding figure until the U.S. joins the debate. The Czechs, and Europe in general, expect to settle climate change issues first with the U.S. and only then with the developing world, including China and India, and object to the U.S.

conditioning its own commitments on China,s obligations. The Czech and other EU member states, respective Environment and Finance Ministries (as well as DG Environment and DG Finance) still need to resolve their internal differences, particularly on levels of financial commitments and financing mechanisms. The Czechs, official position on climate change is often muddled by a vocal anti-climate change campaign of President Klaus, largely a ceremonial political figure who does not speak for the government but uses his position to disseminate his private views. Domestically, the Czechs plan to use funds generated by selling unused Kyoto emission credit to Japan (about USD 0.5 billion) to fund domestic energy conservation programs.

Middle East

¶9. (C) PM Topolanek and FM Schwarzenberg traveled to the Middle East in January and March, in addition to hosting multiple separate events for EU Foreign Ministers in Brussels with key Middle East interlocutors. The Czechs also participated in a recent EU humanitarian assessment mission to Gaza and discussed the provision of EU assistance (58M euros for Palestinians in Gaza, the West Bank and refugees in Lebanon) with Palestinian Authority President Mahmoud Abbas during his February 23 visit to Prague. The Czech government is committed to working within the EU and with the United States to create the conditions for a more lasting solution. PM Topolanek is likely to emphasize the importance of close U.S.-EU coordination and reiterate that the Czechs, on behalf of the EU, stand ready to host future conferences or key meetings to advance peace in the region.

Guantanamo

¶10. (C) The Czech EU Presidency welcomed the U.S. administration's executive orders related to the closure of the Guantanamo detention facility. The Czechs have facilitated internal EU discussions at the Foreign, Justice, and Interior Ministerial levels and European Commissioner Barrot and Czech Interior Minister Langer traveled to the US to meet with Attorney General Holder and other USG officials on March 16-17 to discuss EU questions about these detainees.

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Ambassador-at-large for War Crimes Issues Williamson plans to visit Prague as part of his return trip to key European capitals on March 25. However, the EU member states consider this to be a decision for each individual member state, and while they have discussed establishing an EU framework to address collective Schengen travel security concerns, they have not yet taken collective action. Czech officials have been clear that the Czech Republic, while willing to facilitate EU discussions on the resettlement of detainees, does not plan to accept any detainees due to domestic political reasons.

Regional Issues: Russia, Afghanistan, and the Balkans

¶11. (C) A key challenge for the Czech Presidency will be to lead the EU toward a more united transatlantic approach to Russia. Given their negative historical experience, the Czechs have been a valuable U.S. ally with regard to Russia, within the EU as well as NATO. Events including the Georgia conflict, the gas crisis, and Russia's stance with regard to missile defense have reinforced Czech skepticism toward Russia. They generally agree with the U.S. approach of cooperating wherever possible but resisting Russia's economic and military pressure against its neighbors. Russia will host an EU-Russia Summit May 21-22.

¶12. (SBU) In Afghanistan, in addition to being an active bilateral contributor (see below), the Czechs they also advocate greater EU coordination and contributions. FM Schwarzenberg hosted the EU-Afghanistan Troika Ministerial in January, where the EU reaffirmed its longstanding commitment to reconstruction: from 2002 to 2006, the EU contributed over 1.3B euros to this effort and for 2007 to 2010 has pledged 610M euros.

¶13. (SBU) We have a ready and attentive ally in the Czechs when it comes to advancing stability in the Balkans and EU enlargement. FM Schwarzenberg and DPM Vondra frequently focus attention on developments in the region during the regular monthly meetings of the EU Foreign Ministers. Unfortunately, Czech efforts to advance EU enlargement with Balkan countries have met with resistance from some EU member states. Name issues and ICTY compliance, but also enlargement fatigue, are behind this resistance. We can anticipate that the Czechs will strive to keep the Balkan nations oriented to the West, but progress may be slow.

A Valued Ally With Domestic Challenges

¶14. (C) Our bilateral relations are excellent, with the Czech Republic's November 2008 entry into the Visa Waiver Program having removed the one long-standing irritant. PM Topolanek's commitment to strong transatlantic ties undergird his government's support for the U.S.-proposed missile defense radar site. The country has been a steady supporter of U.S. and NATO military operations and maintains approximately 1000 troops on foreign missions, despite the fact that public support for some deployments has slipped. In Afghanistan, the Czechs have about 500 military and civilian officials. In 2008, they launched a provincial reconstruction team (PRT) and deployed a approximately 100 Special Forces troops. They also deployed a handful of experts to an Operational Mentoring and Liaison Team (OMLT) in Afghanistan. Over the past several years, they have also maintained an infantry battalion of 450 troops in Kosovo. Domestic political constraints may make it difficult for the Czechs to maintain, let alone increase, their foreign troop deployment levels.

¶15. (C) Building on its own recent history, the Czech Republic is our strongest partner in Europe on Cuba and an active supporter of Cuba's democratic opposition. Likewise in Georgia, Belarus, Burma, Iraq and other countries in transition, the Czech government and NGOs work to support peaceful transformations. Prague is home to the U.S.-funded Radio Free Europe/Radio Liberty, and has actively supported broadcasts to countries in Eastern Europe, Central Asia and the Middle East.

¶16. (C) Since assuming office in January 2007, Prime Minister Topolanek's right-of-center coalition government has maintained the Czech Republic's traditional transatlantic orientation despite a tense domestic political situation. The ruling coalition's shaky majority in the parliament

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depends on the assistance of a few deputies who have crossed party lines but whose support has been unreliable. The government will likely face a vote of no-confidence on March 24, a fifth attempt by the opposition to unseat PM Topolanek. The resurgent parliamentary opposition has been pressing the government on all fronts, including in matters of foreign and security policy, the two areas where past governments and oppositions had worked well together. Consequently, decisions on everything from foreign deployments to missile defense have been tainted by the country's domestic politics, at times to the detriment of the Czech Republic's international standing and national interest.

¶17. (SBU) Following several years of strong economic

performance, the small, open, export-oriented Czech economy is now struggling with the effects of the global economic downturn. Nevertheless, the conservative, inward-looking Czech financial system has remained relatively healthy. The Czech Republic is one of only four OECD countries not to have had to recapitalize its banks. Both public and private debt is low, and Czech households have not borrowed in foreign currency. All major banks, though, are owned by European banking groups, some of which have significant exposure to troubled Eastern European economies.

¶18. (SBU) The Czech real economy, however, is suffering from a significant decline in external demand for Czech products. The Czech export to GDP ratio is 80 percent, while over 80 percent of Czech manufacturing is exported, mainly to Western Europe (31 percent of exports go to Germany alone). The key automobile sector, which accounts for 20 percent of Czech manufacturing, has been especially hard hit. After three years of over six percent real GDP growth (2005-2007), the Czech economy slowed to 3.1 percent growth in 2008 and is expected to contract by as much as two to three percent in ¶2009. Unemployment, which had fallen to a record low of 5 percent in July has risen sharply to 7.4 percent and is expected to continue to climb. The government has put forward an economic recovery program, costing almost 2 percent of GDP, and designed to maintain employment and exports. Because most Czech goods are exported, while most household goods are imported, the government has done little to stimulate domestic demand.

¶19. (SBU) In both the EU and G-20 context, the Czechs have consistently warned against protectionism and beggar-thy-neighbor policies, called for evolutionary, rather than revolutionary, changes to regulation and stressed the importance of sustainable public finances. While the Czechs support increased coordination among national regulators, they are likely to oppose any attempts to implement new pan-European financial regulations or efforts to erode their free and open trade and investment regime. The Czech also oppose any efforts to treat the Central and Eastern European region as a whole, fearing the consequences to their economy should international investors put them in the same category as some of the more troubled economies in the region. That said, the Czechs see the EU response to the global financial crisis as a key test of their EU presidency and understand that a united EU and G-20 is needed to reassure markets. Thus, they are willing to subsume their own interests in favor of a wider consensus.

Missile Defense Dominates Bilateral Agenda

¶20. (C) EU membership is one of two pillars of Czech foreign policy. NATO and strong transatlantic ties form the second pillar. Given the importance the Czechs assign to their relationship with the United States, PM Topolánek and his government have viewed missile defense (MD) as the natural next step in our growing security partnership. Since the United States officially presented the MD proposal to the Czech Republic in January 2007, the Czech government has been unwavering in its support, despite significant public opposition driven largely by the Czech historical experience and concerns about foreign troop presence on the Czech territory. Russian threats and intransigence with regard to MD in many ways reinforced the Czech government's determination to proceed with the project. The Czechs moved quickly to negotiate and sign the Ballistic Missile Defense Agreement and the Status of Forces Agreement. The Czech Senate ratified the agreements in November 2008. Ratification of the two agreements in the Lower Chamber has been suspended due to domestic political divisions.

¶21. (C) The Czechs have been paying very close attention to

indications from Washington on our MD plans. Given some of the skeptical statements from the Hill regarding the reliability and effectiveness of the proposed Polish interceptors, Deputy Prime Minister Alexandr Vondra, Deputy Foreign Minister Pojar, and other senior Czech officials have indicated that the Czech government would be interested in moving forward with the proposed radar site even if the United States decides to postpone its decision on the interceptors. During your bilateral meetings in Prague, we expect that missile defense will be at the top of the agenda for Czech officials and the media. In recent meetings, DPM Vondra and other Czech officials stressed that, no matter what the U.S. position will be, advance coordination will be key. The long history of great powers deciding the country's fate "o nas bez nas" ("about us, without us") means Czechs are loathe to be taken by surprise. Especially with regard to Russia, they fear missile defense could be offered as a bargaining chip, leaving them vulnerable to a triumphant Russia.

Thompson-Jones